

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
MARCH 15, 2022**

ITEM 4

SUBJECT

CONSIDERATION OF A RESOLUTION APPROVING, AUTHORIZING AND DIRECTING ACTIONS ASSOCIATED WITH AMENDING AND RESTATING THE STATE REVOLVING FUND MASTER TRUST INDENTURE AND MASTER PAYMENT AND PLEDGE AGREEMENT

DISCUSSION

The California Infrastructure and Economic Development Bank (IBank) sells tax-exempt State Revolving Fund (SRF) revenue bonds on behalf of the State Water Resources Control Board (State Water Board) that are secured with SRF loan repayments pledged to the repayment of these bonds through a Master Payment and Pledge Agreement (MPPA). IBank issues these SRF bonds on behalf of the State Water Board under a Master Trust Indenture (MTI) with the State Treasurer's Office (STO) as Trustee.

Tax-exempt bond proceeds can only be used for public projects, not for private uses, in order to comply with federal tax law. Private use of bond proceeds would create a tax liability for bondholders and create a significant legal and financial liability for the State Water Board, including jeopardizing the State Water Board's ability to sell future tax-exempt revenue bonds for the SRFs.

The Division of Financial Assistance (DFA) requests that the State Water Board approve an amended and restated MTI and MPPA. DFA requests the State Water Board acknowledge and approve its obligations under the amended MTI, authorize the Executive Director and designees to execute the amended MPPA, and authorize the Executive Director and designees to sign documents, make certifications, and take other actions necessary to carry out the purposes of the amended and restated MTI and MPPA.

The primary purpose of the proposed changes is to create additional accounts under the MTI so that loans that have received bond proceeds can be pledged. The State Water Board's Accounting Branch can then track tax-exempt bond proceeds under the MTI and ensure that they are re-used in compliance with federal tax law, preserve the bonds' tax-exempt status, and maintain bond coverage levels and issue future bonds to make full use of the SRFs' lending capacities.

The State Water Board has issued numerous tax-exempt SRF revenue bonds and disbursed their proceeds to SRF loan recipients. In recent years, those borrowers have begun repaying their loans, and a portion of the repayments is attributable to previously disbursed tax-exempt bond proceeds. The repaid bond proceeds are currently pooled with other funds both inside and outside the MTI and now require more discrete tracking

within the State Water Board's accounting system to ensure their proper re-use. Amending and restating the MTI and MPPA will allow the State Water Board to track bond proceed repayments so they can be re-used to fund new eligible projects and pledge loans to maintain bond coverage levels and issue future bonds to make full use of the SRFs' lending capacities. If the State Water Board does not approve the resolution to amend and restate the SRFs' MTI and MPPA, DFA will not be able to pledge further loans that have received tax-exempt bond proceeds in the past. As a result, the funding capacities of the SRFs will be limited and it may be difficult to maintain coverage levels if additional pledged loans are repaid early.

POLICY ISSUE

Should the State Water Board:

1. Approve the proposed form of the MPPA and authorize the Executive Director and designee(s) (Authorized Signatories) to execute and deliver to appropriate entities the MPPA in substantially the form of the draft document presented to this meeting and authorize the Clerk of the Board to attest to the signature of the officer signing such document?
2. Approve the proposed form of the MTI and acknowledge and approve the obligations of the State Water Board thereunder?
3. Authorize and direct each Authorized Signatory to execute such other agreements, documents, and certificates as may be necessary to achieve the purposes of this Resolution and the statutory programs herein mentioned?

FISCAL IMPACT

This SRF MTI amendment will benefit the SRFs because it will enable tracking tax-exempt bond proceeds so that the State Water Board can fund new projects with those proceeds and issue new bonds and maintain debt coverage consistent with the SRF Debt Management Policy and the annual Intended Use Plans.

The accounting structure of the SRF MTI will be more complex. This will create additional workload and cost to create new accounts and modify existing accounting databases and reports. There will also be additional staff and manager/consultant time required to plan, transact and monitor the flow and re-use of bond proceeds. These additional costs will be absorbed by the administrative accounts of the SRF programs.

REGIONAL BOARD IMPACT

There will be no direct Regional Water Quality Control Board (Regional Water Board) or Division of Drinking Water (DDW) impacts. However, the SRF MTI amendment will enable the State Water Board to fund more projects that benefit the regulatory goals of the Regional Water Boards and DDW.

STAFF RECOMMENDATION

The State Water Board should:

1. Approve the proposed form of the MPPA and authorize the Executive Director and designee(s) (Authorized Signatories) to execute and deliver to appropriate entities the MPPA in substantially the form of the draft document presented to this meeting and authorize the Clerk of the Board to attest to the signature of the officer signing such document.
2. Approve the proposed form of the MTI and acknowledge and approve the obligations of the State Water Board thereunder.
3. Authorize and direct each Authorized Signatory to execute such other agreements, documents, and certificates as may be necessary to achieve the purposes of this resolution and the statutory programs herein mentioned.